

ST ANDREW'S JUNIOR COLLEGE
PRELIMINARY EXAMINATIONS – 2011
General Certificate of Education Advanced Level
Higher 1

ECONOMICS

8819/01

Paper 1

14 Sep 2011

3 hours

Additional Materials: Answer Paper

READ THESE INSTRUCTIONS FIRST

Write your name and class on all the work you hand in.

Write in dark blue or black pen on both sides of the paper.

You may use a soft pencil for any diagrams, graphs or rough working.

Do not use staples, paper clips, highlighters, glue or correction fluid.

Section A

Answer **all** questions.

Section B

Answer **one** question.

At the end of the examination, fasten all your work securely together.

The number of marks is given in brackets [] at the end of each question or part question.



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This document consists of **8** printed pages.

[Turn Over

Section A

Answer **all** questions in this section.

Question 1**New Formula and Glittery Growth for Singapore****Extract 1: Singapore Tourism Revenue Surges on Record Visitor Arrivals**

The money spent by tourists visiting Singapore surged last year after a record number of people travelled to the city-state, attracted by two new casinos amid a rebound in the global economy.

Spending rose 49 percent to S\$18.8 billion last year, exceeding the government's forecast, the Singapore Tourism Board said in a statement today. International visitor arrivals rose 20 percent to 11.6 million in 2010.

Efforts to boost tourism in 2010 included the inaugural Youth Olympic Games, while the Singapore leg of Formula One, the world's most-watched motor sport, took place for a third year.

Source: *The Straits Times*, 12 November 2010

Extract 2: Call for Tripling Casino Levy

A lone MP on Monday cautioned the Government against being attracted by the glitter of revenue from casinos. Ms Denise Phua argued that an over-reliance on gaming revenue would hurt Singapore over time.

Currently, while foreigners do not have to pay the S\$100 levy before entering the casino, locals will have to do so at the booth. Before arriving at the booth, visitors to the casino will be segregated according to whether they are Singaporeans or overseas guests.

She called instead for the casino entry levy to be tripled, and for a cap on the number of integrated resorts (IRs) to the current two.

'All that glitters is not gold,' she said, in a speech that warned about the 'dark side' of problem gambling and organised crime. The Government should instead take 'the more difficult journey of honing our own expertise in building quality tourism products'.

Source: *The Straits Times*, 01 March 2011

Table 1: Quarterly Revenue earned by Marina Bay Sands (MBS) and Resort World Sentosa (RWS) in 2010 – 2011 (in million SGD)

Integrated Resorts/Year	1Q 2010	2Q 2010	3Q 2010	4Q 2010	1Q 2011	2Q 2011
Marina Bay Sands	N.A.	\$281	\$631	\$728	\$760	\$958
Resort World Sentosa	\$460	\$979	\$744	\$788	\$922	\$728

Note: N.A. = Not available; 1Q 2010 = 1st Quarter 2010

Source: Quarterly Financial Reports of MBS and RWS,
www.straitstimes.com, June 2011

Extract 3: F1 Tickets Sold Online Buck High Price Trend

People fishing for a quick buck have cast their eyes on the latest happenings in town - the F1 race this weekend. More than 300 tickets have been spotted for sale on popular auction websites such as eBay just days before the race is flagged off this Sunday. One listing is offering a three-day pit grandstand ticket for more than S\$2,000. That's some S\$600 above the official price of S\$1,400.

However, a large number of the tickets sold online are going for as much as 60 per cent below the official price. The practice is prohibited. Under the official purchase terms and conditions, tickets may not be resold or transferred for free or otherwise. Singapore Grand Prix has served legal notice on at least one website for reselling F1 tickets and is in the midst of gathering more evidence against several more.

Source: *Channel NewsAsia*, 25 September 2008

Extract 4: F1 Race in Singapore Will Not Harm the Environment

There will be measures in place to make sure the F1 race in Singapore will not harm the environment. Minister of State for Trade and Industry, S Iswaran, said that noise and smoke are inevitable during the race, but organisers are studying ways to minimise their effect. Mr Iswaran said F1 organisers have been undertaking various research efforts to keep the race green like adopting bio-fuel, for example.

"But having said that, the F1 organisation is based in Europe where environmental consciousness is very high and they, as an organisation, have undertaken many measures to make sure they are minimising their carbon footprint, if not making it zero. So although the F1 is seen, at least in first blush, it might be anti-environment, there are many things they are doing that is actually pro-environment," said Mr Iswaran.

The race is set to generate \$100 million for Singapore each year. But many question whether the returns are big enough for the government to fund 60% in organising the \$150 million race. The spillover benefits to the economy are very large, whether it is tourism spending or consumer spending or business activity. "If STB is able to support this at a level comparable to the benefits for tourism and the economy, then it is justifiable. There are also mechanisms in place to ensure that if in fact the race is very

successful, very profitable, then, profits beyond a certain pre-agreed level between STB and Singapore Grand Prix Pte Ltd will be ploughed back to defray the cost, in other words, to reduce the government grant," he added.

Mr Iswaran also defended the government's decision to impose extra tax for hotels during the F1. He said that based on market studies, unlike restaurants and pubs, hotel rates are expected to go up 3 times during the race. Additional revenue to the government from the restaurants will come in the form of GST and other taxes already in place.

Source: *Channel NewsAsia*, 26 May 2007

Questions

- (a) (i) Compare the trends of the revenue earned by Resort World Sentosa (RWS) and Marina Bay Sands (MBS) from 1Q 2010 to 2Q 2011. [2]
- (ii) Using economic concepts and the data given, account for the comparison of trends you have given in (a) (i). [4]
- (b) Using a demand and supply diagram, account for the high prices of F1 tickets resold online compared to the official price. [4]
- (c) Identify the two different sources of market failures mentioned in the extracts. [2]
- (d) Analyse whether Singapore government should consider tripling casino entrance levy for Singaporeans and continue not imposing any on foreigners. [8]
- (e) Using economic analyses, assess whether the efforts to boost tourism in Singapore are justified. [10]

[Total: 30]

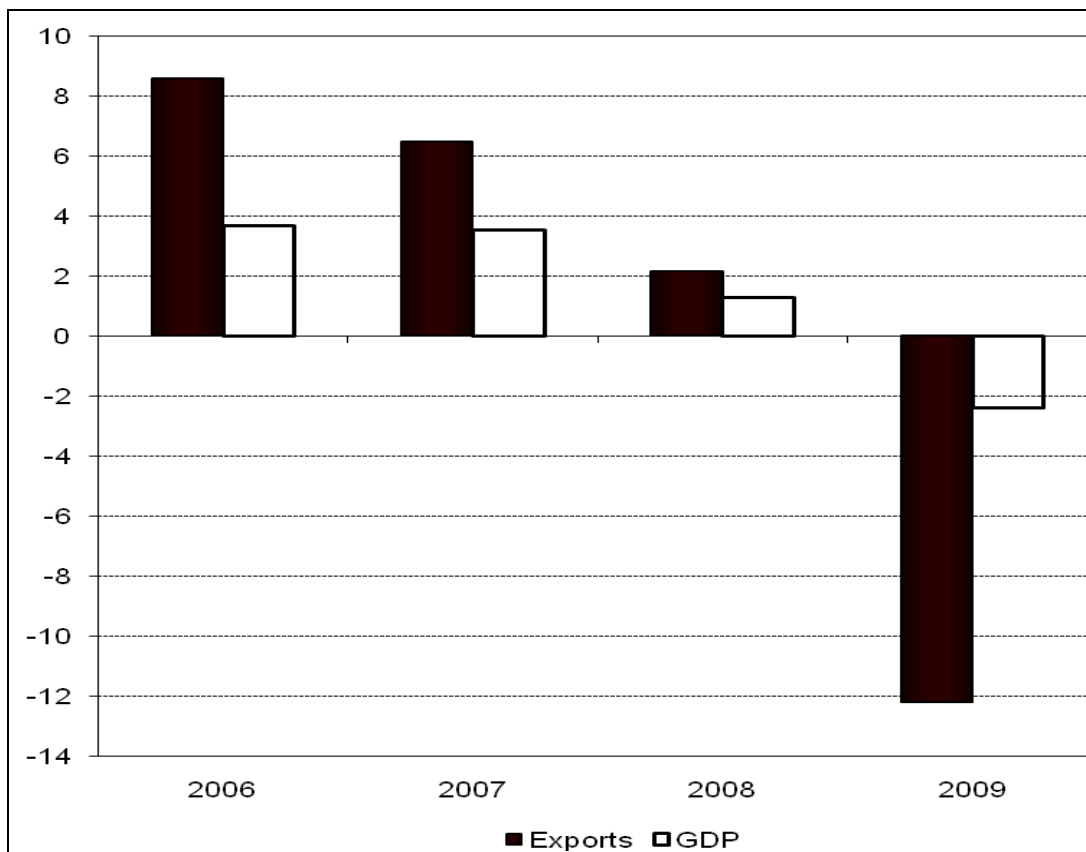
Question 2

Economic Recovery and Trade

Table 2: Singapore's Key Economic Indicators

	2006	2007	2008	2009
Consumer Price Index (% change)	1.0	2.1	6.6	0.6
Unemployment Rate (%)	2.7	2.1	2.2	3
% change in GDP at 2005 market prices	8.7	8.8	1.5	-0.8

Source: Singapore Department of Statistics

Figure 1: Volume of world merchandise exports and GDP, 2006 – 2009
(Annual % change)

Source: www.wto.org

Extract 5: Singapore's economy bounces back

Singapore appears to be emerging from its worst recession on record after the economy expanded at an annualised rate of 20.4% between April and June. The rapid expansion compares with a revised contraction of 12.7% in the first quarter from January to March. It was the first quarterly expansion in a year, lifted by increased drug sales and construction activity, said the Ministry of Trade and Industry. However, the government still expects the economy to contract for the year. The government now predicts the economy will decline between 4% and 6% for 2009 as a whole, less than its earlier estimate of a contraction of between 6% and 9%.

There was a big sigh of relief for many Singaporeans as the economy expanded in the second quarter at its fastest rate in nearly 6 years. Growth surpassed expectations, with a more than 20% rise from the previous quarter. All thanks to a surge in biomedical production, pharmaceuticals and high-end specialist manufacturing. And increased demand for flu vaccines helped an already recession-proof sector to expand. Exports, which are the real lifeblood of Singapore's economy, rose nearly 6% in May. Shipments of raw materials such as iron ore are picking up. The reason, yet again, appears to be China. The rest of the manufacturing sector is still struggling, however, and retail sales are still down. Domestic consumption is not picking up, so analysts say the worst may not be over yet.

Source: *BBC News*, 14 July 2009

Extract 6: Rising Protectionism

A steady buildup of protectionist measures could "slowly strangle" international trade and undercut the effectiveness of national stimulus plans, according to a report the World Trade Organisation (WTO) sent its 153 members on Thursday. Since early this year, there has been "significant slippage" in the global commitment to free trade due to the global economic crisis, the WTO said. "There have been increases in tariffs, new nontariff measures and more resort to trade defense measures such as antidumping actions."

The report lists examples of measures countries are taking to protect their companies and economies -- from European import tariffs on Asian plastic bags to a ban on Chinese toys in India. In March alone, South Korea raised import tariffs on oil; Mexico raised tariffs on 89 U.S. goods; Ukraine slapped an extra 13% tariff on all imports; the U.S. raised duties on imports of Chinese steel pipes; and Argentina mandated a special license for toy imports.

Twelve countries have acted to help their automobile industries. The U.S., Brazil and France have handed out generous loans. India has required licenses and Argentina has set prices for importation of foreign car parts. Ten countries, and the EU, have raised tariffs on imported steel. The WTO praised some nations for explicitly promoting trade. Argentina has eliminated export taxes on 35 dairy products. Brazil has expanded a program to give loans to exporters. China has scrapped import tariffs on steel plates. The Philippines has cut tariffs on wheat and cement. "More trade-policy initiatives of this kind, particularly if they were to be taken collectively by the major trading countries, would make an impact on a global scale," the WTO said.

Source: *Wall Street Journal*, 27 March 2009

Extract 7: Inflation rises with Asia's recovery

Asian economies, buoyed by fiscal pump-priming, loose monetary policies and growing intra-regional trade, have generally rebounded from recession faster and in better financial shape than other regions around the world. But as economic recovery comes quicker to Asia than in Europe and the United States, inflationary threats are rising as regional governments remain reluctant to rein in their crisis-induced stimulus measures, including, in many countries, record low interest rates.

As fast economic growth resumes, so too are pricing pressures that some say could undermine the medium-term effectiveness of government stimulus measures. Food and energy are major components of Asia's consumer price indices - accounting for as much as 60% and 15% respectively in certain economies. There is growing evidence of labour shortages across the region, with Chinese firms in the country's export-oriented southern regions complaining of insufficient skilled workers. Increasing consumer spending power, too, is contributing to inflationary pressures.

The International Monetary Fund (IMF), for one, does not support the rapid withdrawal of Asia's fiscal stimulus measures, warning that while economies have recovered they may not be strong enough yet to stand alone. Due to the still-fragile nature of the recovery, fiscal policies need to remain supportive of economic activity in the near term.

At the same time, the IMF said "countries that are already enjoying a relatively robust rebound of activity and credit will have to tighten monetary conditions earlier and faster than their counterparts elsewhere". Whether Asia's central banks do so in a timely and effective manner will determine whether Asia's recovering economies sustain growth or set the macroeconomic stage for the region's next bust.

Source: *Asia Times*, 25 February 2010

Questions

- (a) (i) Describe the trend of Singapore GDP from 2005 - 2009. [2]
- (ii) What does your observation in (a) (i) say about the Singapore's economic performance over the same period? [4]
- (b) "Exports, which are the real lifeblood of Singapore's economy, rose nearly 6% in May" (Extract 5).
- Consider how the above could impact the Singapore government's use of exchange rate policy to boost its economy. [6]
- (c) (i) State any two causes of inflationary threats in Extract 7. [2]
- (ii) Assess whether the IMF has adopted the right approach in not supporting the rapid withdrawal of fiscal stimulus measures by Asian countries. [6]
- (d) (i) Using Figure 1, explain the relationship between real GDP growth and trade growth of the world from 2006 - 2009. [2]
- (ii) Some countries have moved away from free trade while others promoted it. Discuss under what circumstances these differing approaches would benefit the countries involved. [8]

[Total: 30]

[Turn Over]

Section B

Answer **one** question from this section.

- 3** As economies mature, governments take on a renewed approach to the conscious retention of 'green lungs' in their countries. These environmentally-friendly features provide a balance to the effects of industrialisation in these countries. Cities like Amsterdam and London have been successful in their efforts. Encouraged by these, there are proposals to create a 'green corridor' that will run through Singapore, in place of the previously Malaysia-owned railway tracks.
- (a) Explain the economic reasons behind the active provision of 'green lungs' by a government. [12]
- (b) Discuss the challenges that the Singapore government may face in their effort to improve the quality of their environment through the retention of 'green lungs' in the country. [13]
- 4** The balance of payments remains one of the key economic indicators for an economy, especially so in the face of globalisation. A finer look at this statistic can often reveal new insights to an economist.
- (a) Explain why the capital and financial account might grow in its relevance as an economic indicator in the face of a more globalised world economy today. [10]
- (b) Comment on whether an imbalance of the balance of payments would require the government to make it the top priority in formulating its policies to achieve macroeconomic goals. [15]

~~ **End** ~~